

Supporting Work: A Proposal for Modernizing the U.S. Disability Insurance System

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Social Security Disability Insurance (SSDI), 1956 - Present

1. **Crucial piece of U.S. safety net since 1956**

- 20 year old worker: 3 in 10 odds of disability \geq 6 months prior to retirement
- SSDI Insures workers against poverty, loss of healthcare due to disability
- Currently insures 157 million non-elderly Americans
- Currently pays cash benefits to 8.8 million disabled workers and 2.1 million dependents

2. **SSDI's outmoded definition of disability inhibits efficacy**

- SSDI cannot assist *workers* with disabilities to keep working

3. **Result: A dual misdirection of resources**

- ***Too little \$*** Helping workers w/disabilities to remain employed
- ***Too much \$*** Fostering unnecessary long-term dependency

The Program is in Ill Health

- **SSDI's outmoded definition of disability inhibits efficacy**



Social Security

The Official Website of the U.S. Social Security Administration

Social Security pays only for total disability. **No benefits are payable for partial disability or for short-term disability.**

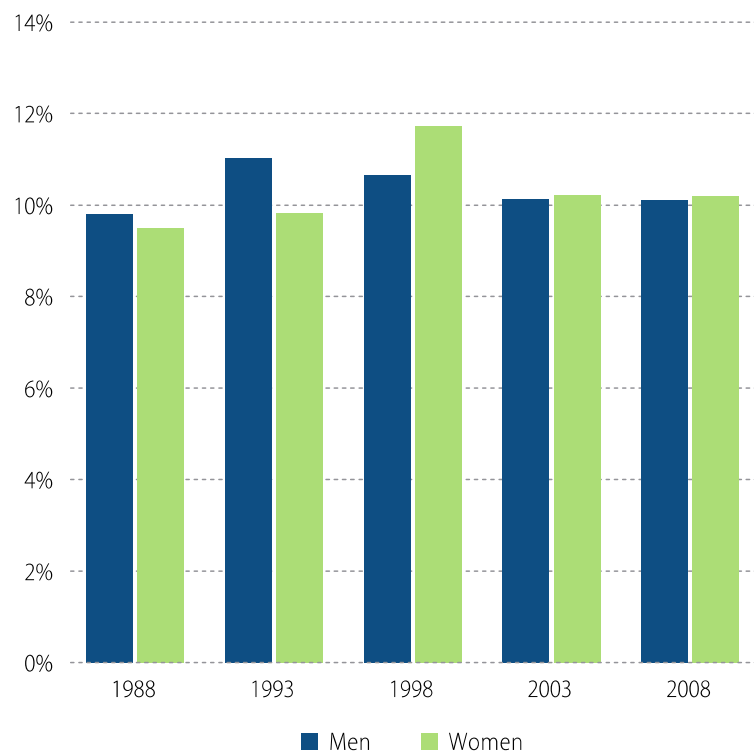
"Disability" under Social Security is based on your inability to work.

- **Compare to Americans with Disabilities Act of 1990**
 - “The Nation's proper goals regarding individuals with disabilities are to assure equality of opportunity, full participation, independent living, and economic self-sufficiency...”
 - “Physical or mental disabilities in no way diminish a person’s right to fully participate in all aspects of society...”

Fraction of Adults with Disabilities is Stable but Fraction Receiving SSDI is Rising Sharply, 1988 – 2008

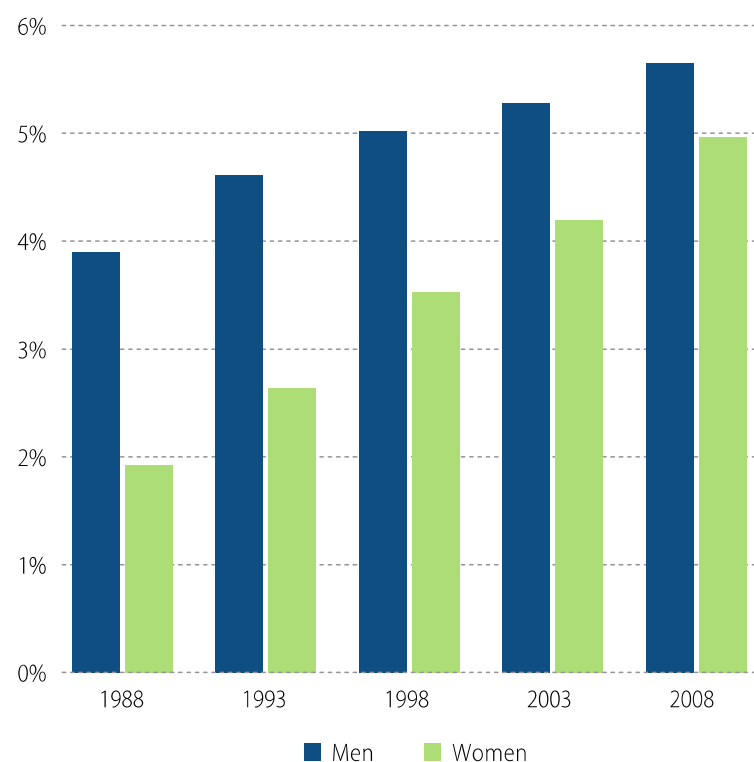
Percent of adults with self-reported disability

Percentage of people reporting a work-limiting health condition or disability, ages 40-59



SSDI recipient as a share of adults

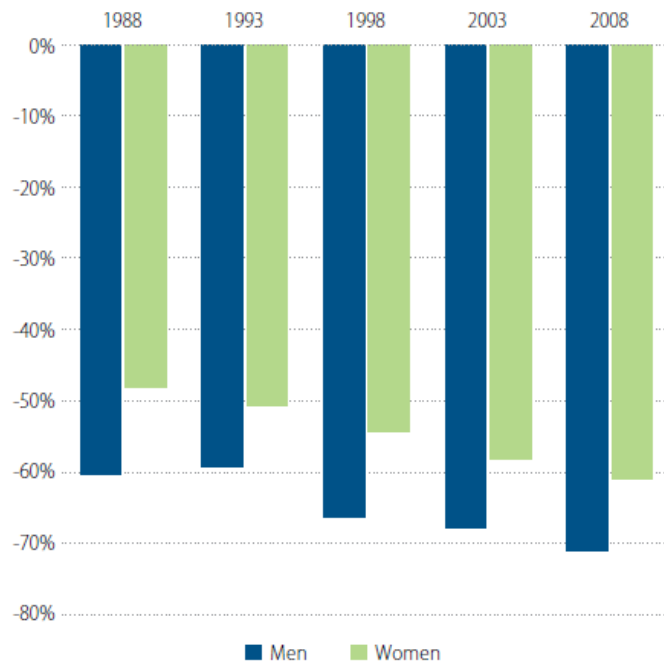
Fraction of individuals receiving SSDI benefits, ages 40-59, 1988-2008



Falling Employment of Adults with Disabilities, Rising SSDI Dependency

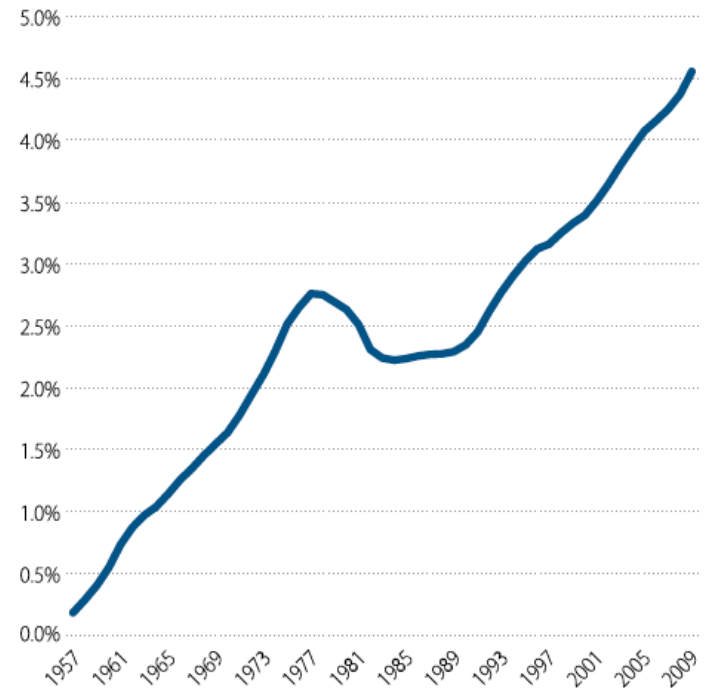
Employment Gap between Adults with and without Disabilities: Growing

Employment gap: Men and women ages
40–59 with disabilities relative to those without
disabilities, 1988–2008



SSDI Receipt per Non-Elderly Adult has Almost Doubled since 1984

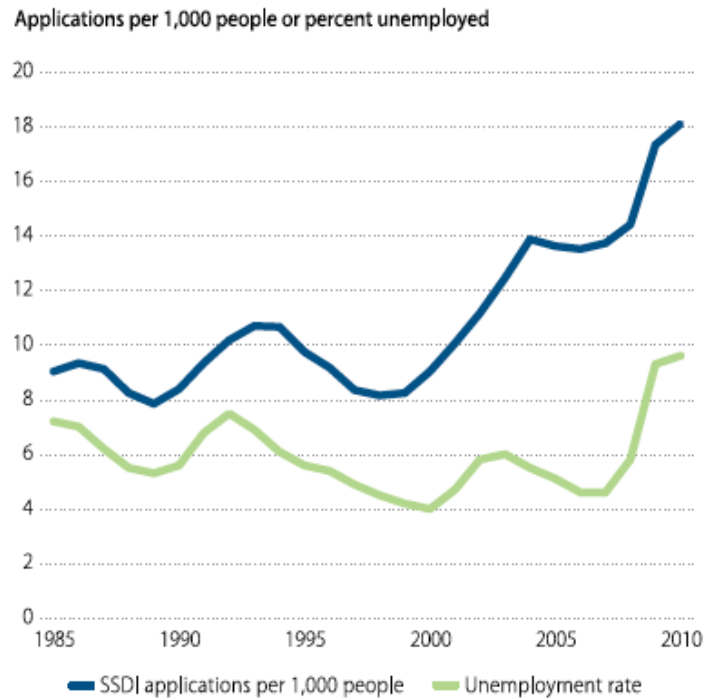
Percentage of individuals receiving SSDI disabled
worker benefits, ages 25–64, 1957–2009



Apps and Awards Strongly Counter-Cyclical Growing Share of Subjective and Non-Verifiable Disorders

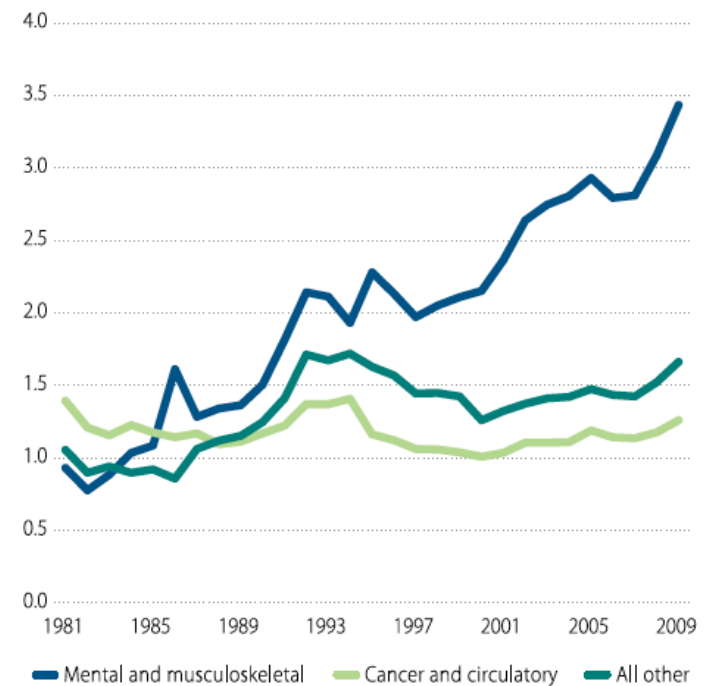
SSDI Apps and Awards: Highly Responsive to Unemployment

SSDI applications per 1,000 adults and U.S. unemployment rate, ages 25-64, 1985-2010



Mental + Musculoskeletal Disorders Now Comprise >50% of Awards

SSDI awards per 1,000 insured by diagnosis, 1981-2009

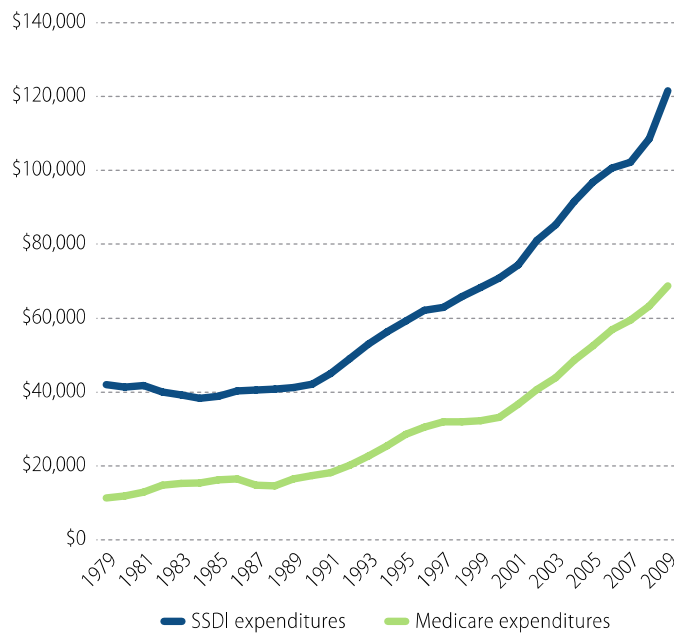


Growth of SSDI Program Expenditures is Unsustainable

SSDI Program Expenditures Growing:
Cash + Medicare ~ \$185 billion in 2009

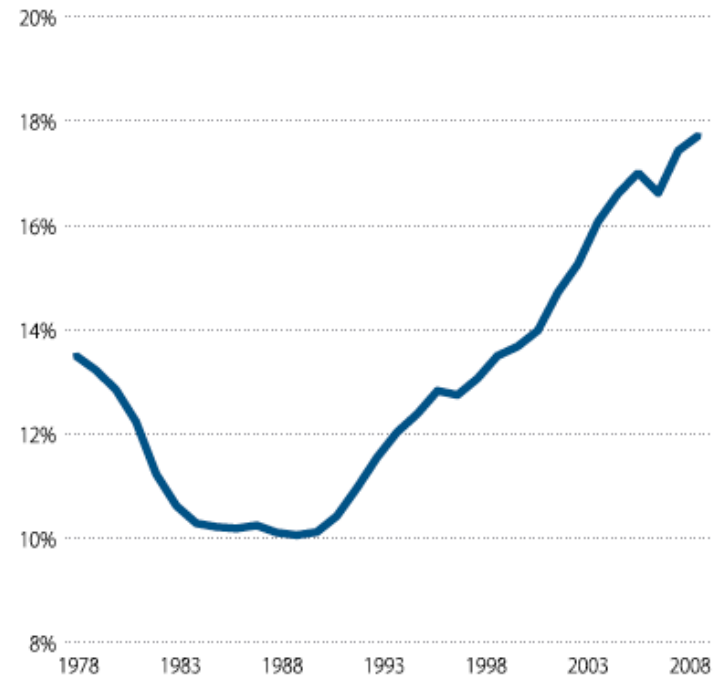
Real annual expenditures for SSDI Recipients,
1979-2009

Millions of 2009 dollars



Share of OASDI Dollars:
10% in 1987 → 18% in 2008 (1 in 5 \$)!

SSDI expenditures as a share of total OASDI
expenditures, 1979-2009



The Need to Change Policy Direction

1. **SSDI is vulnerable because its finances are out of balance**
 - DI Trust Fund is projected to be exhausted ~2015
 - SSDI expenditures also drawing down OASDI trust fund
2. **SSDI is vulnerable because it's failing its mission**
 - SSDI is *not* serving disabled workers well—Emp rates falling!
 - Implausible that *disability incidence* is growing as fast as SSDI
 - Mental + musculoskeletal disorders: Less severe, more subjective than traditional impairments
3. **SSDI is unlikely to stay politically 'untouchable' for long**
 - But good news: Program is so badly out of date that...
 - Possible to improve services to disabled *and* slow SSDI growth

Failure of Past Reforms

Prior reforms have failed...

1. Limiting SSDI awards by denying applicants rather than reducing applications (1980s clampdown)
2. Revoking benefits of people who have no other income (1996 termination of Drug & Alcohol addicted)
3. Reducing penalties for work when it's too late to matter (Ticket to Work)

What SSDI Reforms Should Do: Four Objectives

1. **Support individuals with disabilities to keep working**

- Front load assistance, back load screening

2. **Positive incentives to workers**

- Reward work
- Reduce incentives to exit labor force

3. **Calibrated incentives to employers**

- Employers should 'recognize' social costs
- But insulate (partially) from bad luck, worker moral hazard

4. **Political and administrative feasibility**

- Complexity, data needs, monitoring, enforcement
- Public versus private provision



A New Direction for U.S. Disability Insurance: Supporting Work

- **Support workers while still working: ≤ 90 days of onset**
 - a. Assist workers with work-limiting disabilities to...
 - Remain in their current jobs
 - Transition to more suitable jobs
 - b. Assist employers to accommodate workers, comply with ADA
 - c. Up to 24 months of benefits—*before applying for SSDI*
- **Mechanism: Private Disability Insurance (PDI)**
 - Carried by employers
 - One-third of U.S. workers already covered by PDI policies

What is Private Disability Insurance (PDI)?

- **Key Features of PDI**

- Support workers with disabilities to *keep working*— ‘Reasonable Accommodations’ required by ADA, paid by PDI
- Employers keep their policy costs low by preventing work limitations from becoming career-ending disabilities

- **How does a worker qualify?**

- Sickness or injury limits worker from performing the “material and substantial duties of her regular occupation”
- Benefits commence w/in 90 days of disability onset
- Worker must be vested – paid in at least six months to policy

What Benefits Would PDI Provide?

- a. **Vocational rehabilitation services**
- b. **Workplace accommodations mandated by the ADA**
- c. **For workers who maintain employment:**
 - Partial wage replacement equal to 60 percent of monthly salary and capped at \$2,500 monthly
 - This is *less generous* than most PDI plans
- d. **For workers who claim disability after losing job:**
 - Wage replacement at the state's UI replacement rate
 - Note that employer is either experience-rated for UI or PDI but not both in this case

Timing of Benefits

a. **Access to PDI benefits**

- Benefit vests on 91st day of employment
- Waiting period of 90 days following disability onset to collect benefits

b. **Duration of PDI benefits**

- 21 months after disability onset, worker may apply for SSDI
- 24 months after disability onset, PDI benefits terminate (sooner if worker returns to work)

c. **Transition to SSDI (if needed)**

- Individuals with extremely disabling conditions could be permitted to apply immediately to SSDI
- Follow Compassionate Allowance program categories

Example 1: Worker Suffers AMI at Month 10, PDI Benefits at Month 13, Returns to Work at Month 16

Months since hire	Employment status	PDI status	SSDI status
1-3	Working	Not vested	N/A
4-6		Vested	
7-9			
10-12	Disabled		
13-15		PDI benefits	
16-18		Working	
19-21			
22-24			
25-27			
28-30			
31-33			
34-36			Working

Example 2: Worker Disabled at Day 91 on Job, Ultimately Receives SSDI

Months since hire	Employment status	PDI status	SSDI status
1-3	Working	Not vested	N/A
4-6	Disabled	Wait period	Wait period
7-9	<div></div>	PDI benefits	<div></div>
10-12			
13-15			
16-18			
19-21			
22-24			
25-27			SSDI app
28-30		PDI benefits	<div></div>
31-33		N/A	
34-36	Disabled	N/A	SSDI benefits

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4. **Political and administrative feasibility**

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Incentives to Workers

- **Under current SSDI program: Terrible worker incentives**
 - Workers must not be working to *apply* for SSDI
 - Must spend 0.5 to 3+ years out of LF while fighting for award
 - One awarded SSDI, it's crazy to exit
 - Ultimately, *SSDI rewards non-work, penalizes work*
- **Under PDI: Better worker incentives**
 - *All benefits w/in 90 days of disability while still employed*
 - 60% wage replacement will generally exceed SSDI benefit
 - Marginal incentive to try to work: 100% \$ on hours you work 60% \$ on hours you do not
 - PDI benefit while employed will exceeds UI benefit ($\leq 50\%$)
 - Vocational rehab services, ADA accommodations

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Incentives to Employers under PDI

- **Under current SSDI: Terrible incentives to employers**
 - Face *no cost* when workers make SSDI claims—no incentive to reduce utilization
 - Only sensible *if* employers have no influence on claims—unrealistic!
- **Under PDI: Implicit experience rating – Provides incentives**
 - Experience rating is implicit in a PDI policy
 - Employers will therefore recognize the cost of disability
- **PDI plan would not place employers at great risk for bad luck**
 - No more than 24 months of partial wage replacement
 - Health care is *not* covered via PDI
 - Compassionate Allowance SSDI cases cost employer nothingS

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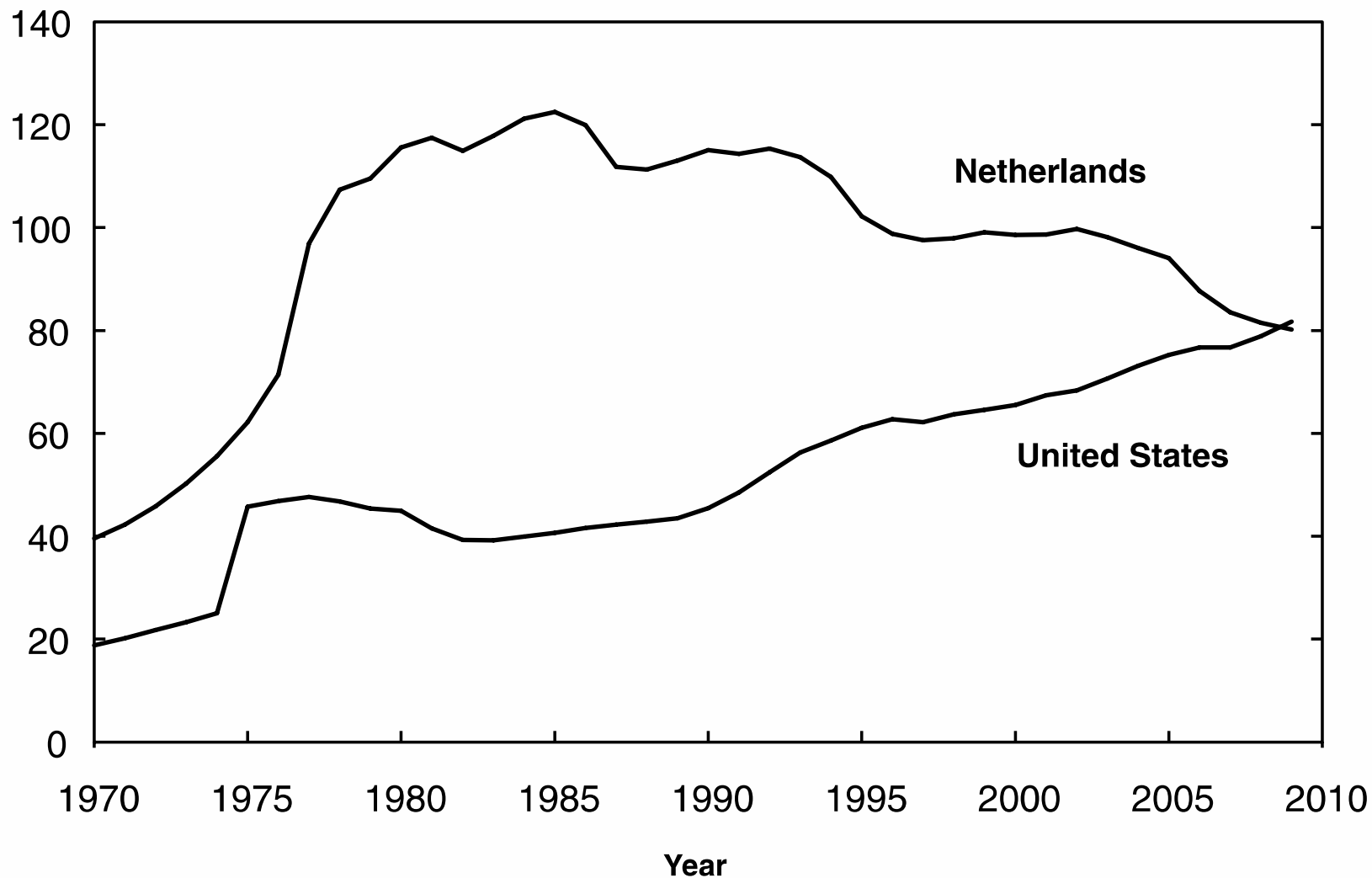
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Scaling Up: Private Disability Insurance

- **Harness existing capacity: Use private sector**
 - 1/3rd of U.S. workers *already covered* by PDI policies
 - *Modest cost*: < \$250 per worker-year (5% of Health Insurance)
- **Modeled on existing institutions**
 - a. Unemployment Insurance: All employers, *experience rated*
 - b. Workers Compensation: All employers, *experience rated*
 - c. Temporary Disability Insurance: Mandated in 5 states
- **Successful precedents**
 - a. Netherlands implemented similar reforms in 2000s:
 - *Dramatically slowed inflows onto public disability system*
 - b. U.S. Workers Compensation system
 - *No real cost increase in two decades, even while SSDI growing rapidly*

Disability Receipt in U.S. and Netherlands, 1970 – 2009

Beneficiaries per
Thousand Workers



Source: Burkhauser and Daly 2011

Another Expensive Employer Mandate?

- **Modest cost**
 - < \$250 per worker-year (5% of Health Insurance)
 - Premiums are not very high even in “risky” jobs (b/c low wages)
- **Employers would face limited and temporary exposure**
 - PDI would *not* pay health benefits
 - Severe, career-ending disabilities go *immediately* onto SSDI
 - Temporary wage replacement: 60% of salary, ≤ \$2,500 month
- **Slowing system-wide costs will reduce employer burden**

	1989	2009	Increase (%)
DI Payroll Tax	1.1 %	1.8 %	70 %
SSDI Payments	\$41 bil	\$122 bil	198 %
SSDI Share of Soc Security	10 %	18 %	80 %

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Who Would Benefit from Supporting Work?

1. **Workers with disabilities**

- Prevent work limitations from *needlessly* ending careers
- Reverse 40% fall in employment rate in last 20 years
- Increase opportunities for gainful employment

2. **Employers**

- Retain valuable human capital: Lose fewer workers to SSDI
- Cost-effective insurance + expertise for complying with ADA
- Longer-run: Reduce payroll tax burden

3. **Workers without disabilities**

- Improve economic security for *all* workers and their families
- Enhance longevity of Social Security—weakened by SSDI

4. **Key benefit**

- From fostering unnecessary long-term dependency
- To helping workers with disabilities to remain employed

Who Would Not Benefit Under this Proposal?

1. **Proposal will not be Pareto improving**

- SSDI serves as a *non-employability* and *disability* program
- PDI only helps those with *work-limiting* impairments
- Not those who have low skills who cannot find work

2. **Non-employable, non-disabled workers may be worse off**

- Adds 21 month wait period until SSDI application
- No impairment → No PDI benefits in the interim
- Less use of SSDI as shadow long-term unemployment insurance system
- Likely to increase hardship for low-education, middle-age adults

3. **SSDI not intended to serve non-employable, non-disabled**

- Other policies needed
- EITC for older workers w/o dependents?